

Frequently Asked Questions for 1099's.

Question: Checks to banks are listed as "07" payments when they are checks for accounts or certificates of deposit. Shouldn't these be considered "00" and corrected on the master file?

Answer: Banks **do not** receive 1099's due to their corporate status. Please notify Danny.Bokamper@DFA.STATE.AR.US of the banks vendor number and this correction will be forwarded to Office of State Procurement. No changes to the tax code will be necessary and the 1099 will not be issued.

Question: Do all one-time vendors need to be corrected or simply those receiving 1099's?

Answer: If the vendor and the payment **are taxable** under the IRS rules, the one-time vendors **should** be corrected. Agencies should not consider the \$600 threshold since that will not be calculated until all payments for that vendor from all agencies are consolidated.

Question: What do I need to look for on the A/P Vendor Report in order to make corrections?

Answer: Examples of individual situations are covered in the Service Bureau Agency and User Agency Review of AASIS Vendor Report Instructions.

The tax code of the payee and the tax code of the payment are shown on the report along with the amount that will be reported to the IRS if both the vendor and payment have a tax code other than "00". The goal is to provide accurate 1099's for payments that are tax reportable for vendors who are tax reportable.

Question: We do not have any board members, however, some payments were made to vendors with #'s ranging in the "10000s", etc. All payments are not 1099 material, but were simply reimbursable travel expenses. Are any corrections needed?

Answer: Reimbursements are not normally reportable. Please be sure that the tax code of the payment is "00". If not, a correction is needed.

Question: To whom in the Office of Accounting should I e-mail 1099 corrections?

Answer: **User Agencies** ACCT1099USERAGENCY@DFA.STATE.AR.US

Service Bureau Agencies ACCT1099SERVICEBUREAUAGENCY@DFA.STATE.AR.US

Question: There has been some discussion about not using vendor numbers for one-time payments. Our agency has money set aside for refunds to licensees for continuing education. These refunds will be paid out at a maximum of \$50, which would mean we could issue 1000 checks to these one-time vendors. Requiring a W-9 to process these

one-time payments would create a lot of extra time and work, not only for us but also for the Office of State Procurement, which has to set up these vendor accounts.

Answer: The caveat for using one-time vendors is that the vendor/payment is **not** tax reportable per the IRS. Please refer to the following IRS website for more information.

If these payments are actually **non-taxable reimbursements**, not stipends, they are **not reportable**, therefore no W-9 is needed and you would not need to set up a vendor record.

Question: I have corporate entities that have a vendor tax code of "07 –Non Employee Compensation". Do I have to change all of the payments to "00" to prevent a 1099 being issued?

Answer: Absolutely not. The **only exception** to corporate entities getting 1099's is when "06 –Medical Services" or Attorney Services are provided. Normally, the entity will be a physician's clinic or a group of attorneys.

Question: I have been asked to provide information about benefit vendors to the accounts payable department. Where might I find answers to their questions?

Answer: The purpose of "box 14 - Gross Attorney Fees" on the One-Time Vendor spreadsheet is to recognize monies paid to attorneys when the amount that the attorney personally receives is unknown. If the court order specifies how much the attorney personally receives and the amount that the beneficiary receives, then the **court ordered amount** of the attorney's fee would be in "**Box 7 – Non-Employee Compensation**" and the **total amount paid** would be in "**Box 14 - Gross Attorney Fees**". Attorneys functioning as Trustees are not reportable.

Question: Two of our board members 1099's are inaccurate. Vendor # 199999 - Jane Doe on 9/24/02 – shows \$37.10 but should be \$60 on the 1099 instead. Vendor # 199998 - John Doe - on 5/2/02 – shows \$225.08 but should be \$240 on the 1099 – I don't know how this amount was calculated. How would I go about making the necessary corrections?

Answer: The difference in amounts was probably due to choosing "P1" as described in the Vendor Review Instructions.

If you are a "service bureau agency", you will fill in the AASIS Vendor Correction spreadsheet with the correct amount, then you will send the spreadsheet to the e-mail address listed above and the Service Bureau will make the requested corrections.

If you are a "user agency", you will follow the on-line correction procedures.

Question: Will we receive anything from AASIS prior to 1099's being sent out that would aid us in making sure our payee(s) should be receiving a 1099?

Answer: No. We are now utilizing statewide reporting of 1099's. When all payments are consolidated from all agencies, the 1099 reporting decision is made and 1099's are mailed directly from DFA.

Question: I have only one payee who was paid over \$600 in 2005 and those payments (2) were for dues in the amount of \$945. Am I correct in assuming that dues are not 1099 reportable?

Answer: The IRS \$600 reporting threshold does not apply to each agency. It now applies statewide. Therefore, **any** taxable payment to a taxable vendor should be included.

Question: The attachment has the corrections for the one-time vendors. From the instructions, I understand that, even though, most of our Vendors listed under the AP Vendors Report, have amounts under the W.Tax Base, but because they are corporations, they will not receive a 1099. Is this correct?

Answer: The key is whether the Vendor has a tax code record of 01,03,06,07. If they have that tax code plus the payment also has that tax code, they will get a 1099. Most corporations throw these away and do not notify us that they are inappropriate for their business.

Question: I am presently trying to figure out the 1099 issues for our office. In reviewing my Board member vendors, I have found one of my Board member has a problem. Board Member John Doe - original vendor number was 199999. I was told to use a new vendor number when he was reappointed 188888888.

The original number seems to be blocked by OSP for some reason, and the new number is for his business, and does not show up on my Board member vendor list. His per diem did not reach the \$600.00 mark for calendar year 2005, but it could this year. How do I correct this?

Answer: As to the question concerning, the vendor number, please send an email to OSP1099@DFA.STATE.AR.US and work with Office of State Purchasing to resolve this situation. The new vendor report will show the missing payments.

Question: I thought that a corporation that provided legal services was reportable to the IRS.

Answer: This is an exception to the general rule concerning not reporting 1099's for corporations per the IRS regulations.

Attorneys usually belong to limited liability corporations that have been treated as 1099 reportable in the past and should continue this way. Last year, we made several 1099 corrections requested by attorneys where the payment was made incorrectly to either the attorney or his limited liability corporation.

Question: I have been knee deep with renewals all my licensees are renewing their license right now. Needless to say I haven't had any time to try and read through all this 1099 info. The only 1099 needed are for my board members, Judge Judy Court reporting 1,893.80, Quincy Investigative \$1,541.40 and Dr. Kildare \$1,800.00.

Is there anything I should do this go around or is AASIS doing the 1099 auto?

Answer: There is not an easy way around this. AASIS will automatically pick up the data the way it was keyed but you really need to check on your Board Members and follow those instructions.

Question: When can my board members expect their 1099?

Answer: Office of Accounting will print, stuff and mail the 1099's by January 31, 2005.

Question: Should I contact Office of Accounting about a vendor question?

Answer: The answer depends on the type of vendor.

Question: We bought land and we went through ABA and the title company and paid the individual. We need to know if this is reportable on 1099S.

Answer: No. If you utilized a title company to complete the transaction, the title company was acting as your agent and is responsible for issuing the 1099S to the individual.

Question: AR Forestry Commission has paid a Volunteer Fire Department grants as one time Vendor. Are grants excluded from the 1099 process?

Answer: The answer depends on the individual grant. The grantor may be able to furnish this tax reporting information. However, Form 1099 Miscellaneous is intended for services rendered, not reimbursements or supplements. If the payments are for services rendered, then the question is what is the tax status of the individual or business that is receiving payment. That would determine the need to submit a one-time vendor spreadsheet for a 1099.

Normally, a Volunteer Fire Department is a non profit entity and is exempt by Section 501(c)(3) of the Internal Revenue Code. A W-9 should be requested in order to meet IRS requirements for "due diligence" and a vendor added to the State's system for the next payment..

Question: We are just looking for confirmation on this: All one-time vendors used by this agency were for non-taxable transactions and the tax status, where needed, was changed to "00", therefore no spreadsheet is needed?

Answer: The term "one-time vendor" is a system default vendor convenience or for non participating agencies to record payments. The tax status of one-time vendors is automatically non reportable due to the fact that it is a compilation of many vendors without any individual taxpayer identification number and if you have applied the IRS rules per publication 1220 properly, no spreadsheet is required.

However, we discourage the use of "one-time vendors" as there is no easy audit trail to track their payments for reporting purposes using the system.

Accounts Payable Vendors should call 1-800-714-9065. This is our answering service. They have a script that will include all the information needed to resolve any problem before we call the vendor back. We will normally be able to call them back within 5 working days.

If Board and Commission Members, Employees, Elected State and Local Officials, Judges and Legislators have questions, please email <mailto:Danny.Bokamper@DFA.STATE.AR.US> and give the name, tax identification number, phone number and a general description of the problem.